No. 85-1780

Supreme Court, U.S.
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IN THE

# Supreme Court of the United States

October Term, 1985

BIC LEISURE PRODUCTS, INC. and
WINDGLIDER FRED OSTERMANN, GmbH,

*Petitioners,*

*vs.*

WINDSURFING INTERNATIONAL, INC.,

*Respondent.*

## REPLY BRIEF OF PETITIONERS

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## REPLY BRIEF OF PETITIONERS

Petitioners have raised two basic issues of substantial significance. The first issue—whether the Court of Appeals for the Federal Circuit ("the Federal Circuit") has created and installed a new legal standard which is alien to and irreconcilable with the Patent Misuse Doctrine—is a matter of critical importance to the public. The second issue—whether the patent in question is unenforceable by reason of misuse—is of great practical concern to the particular litigants and others in this industry.

As to the first issue, respondent was so completely unable, within the bounds of responsible advocacy, somehow to reconcile the unprecedented "economic analysis" rationale of the Federal Circuit with the equitable Patent

Misuse Doctrine originated by this Court, it barely made an attempt. Instead, respondent has concentrated its efforts upon the second issue, contending in effect that had the Federal Circuit followed the "proper" rule of law, it would have reached the same result.

Respondent is correct in its tacit recognition that the "rule of reason" analysis of the Federal Circuit is indefensible; the decision below cannot be allowed to stand. As to the merits of the specific patent misuse issue, respondent has been compelled to rely upon lower court cases which, upon analysis, either are demonstrably inapposite or support petitioners' position. Respondent ignores as it must the rationale of the landmark cases of this Court.

## Respondent Does Not Seriously Dispute That The Federal Circuit Has Created A New Policy For The Determination Of Patent Misuse Questions Which Is Irreconcilable With The Doctrine Promulgated By This Court

In three short paragraphs, respondent has attempted half-heartedly to dismiss as mere "discussion" the lengthy exposition by the Federal Circuit of its new rationale for the determination of patent misuse questions. Respondent would have this Court accept that the "holding" is contained exclusively in the last two sentences. This is patently absurd.

Undeniably, the *basis* of the "holding" that the District Court had erred is the immediately preceding three-page consideration in which the Federal Circuit promulgated a new policy for the determination of the present as well as

*all future* patent misuse questions. Certainly, the Federal Circuit disregarded the arguments presented below which respondent has now repeated almost verbatim. But the Federal Circuit was guided only by its own antitrust-like analysis of "anticompetitive effect," not by a proper evaluation under the Patent Misuse Doctrine.

It is wishful thinking for respondent to conclude that the "holding" of the Federal Circuit is (R.[1] 2):

> that the mere inclusion, in a patent license, of an acknowledgement of trademark validity and an agreement not to use the trademark, is not patent misuse ....

The "holding" was that (A.[2] 15a):

> ... the district court was improperly persuaded to rest its holding of misuse entirely on an after-the-fact determination that the marks are generic. Because that was error, the holding [of patent misuse] must be reversed.

In any event, petitioners submit that the Federal Circuit would have reversed regardless of the basis of the District Court's ruling *unless,* applying its own unique criteria, it could have reached the same result.[3]

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1. Respondent's Brief.

2. Appendix.

3. The substantive basis of petitioners' claim of patent misuse is delineated in the Petition at pages 11-13 and in this Reply, *infra.* In pressing this claim, petitioners have neither urged nor adopted the reasons relied upon by the District Court. Petitioners do vigorously assert, however, that the Federal Circuit committed reversible error in both its analysis and its ultimate holding.

## Respondent's Patent Is Unenforceable By Reason Of Misuse Under The Standards Mandated By This Court

Simply stated, a patent is a monopoly limited by the scope of its claims. A patent is misused, and becomes unenforceable, when its limited monopoly is wielded as a lever to acquire rights beyond its legitimate metes and bounds. Here, respondent, in licensing its patent, unlawfully leveraged its monopoly, *inter alia*, by conditioning the *patent license* upon the surrendering by the licensees of certain rights which they otherwise had under the *trademark law*. Eleven different organizations which acquired licenses under respondent's *patent* found that to do so, they were required to become bound by covenants not to challenge the validity of respondent's *trademarks* and not to use those trademarks in *any form or on any product*, even beyond those forms and classes for which the trademarks had been registered. Any violation of either such *trademark* covenant was, of course, an actionable breach of contract. More importantly, it was specifically punishable by termination of the license under the *patent*.

In its defense, respondent has advanced what is a rerun of its brief before the Federal Circuit which that court, although it reached the result advocated, ignored completely. However, even had the Federal Circuit wanted to accept the precedent relied upon by respondent, it still would have had no proper basis for endorsing respondent's licensing policy.

### *Deering, Milliken Co. v. Temp-Resisto Corp.*

Respondent relies in large part upon *Deering, Milliken Co. v. Temp-Resisto Corp.*, 160 F. Supp. 463 (S.D.N.Y.

1958), *rev'd in part*, 274 F.2d 626 (2d Cir. 1960), wherein, it asserts, the court sanctioned conduct similar to that complained of by petitioners. Respondent's analysis is erroneous.

The facts in *Deering Milliken* are complex, impossible to summarize within the constraints of this Reply, and are best set forth by the District Court, 160 F. Supp. at 478-81. However, the differences between *Deering Milliken* and the present case are substantial, numerous, and material:

—In *Deering Milliken*, two patents were involved: one for a fabric which was licensed to convertors and another for a garment incorporating that fabric which was licensed to manufacturers; no single entity required a license under both patents. Here, there is only one patent.

—In *Deering Milliken*, the owner of the patent also granted to the garment manufacturers the right to use its trademark. Here, respondent refuses to license its trademarks under any circumstances.

—In *Deering Milliken*, the license under the second patent could be terminated if the patent or trademark was infringed. However, unlike here, there was no restriction either as to the right to challenge the validity of the trademark or to use the trademark in a form or on classes of goods for which the trademark had not been registered.

—In *Deering Milliken*, unlike here, the conduct in issue occurred almost entirely prior to the issuance of the patents.

Respondent also incorrectly represents that the District Court's finding of misuse was affirmed on appeal. The fact is that the Court of Appeals reversed, holding the patent invalid; *therefore, it never addressed the question of misuse.* 274 F.2d at 634.

***Kolene Corp. v. Motor City Metal Treating, Inc.***

Although the language in *Kolene Corp.* v. *Motor City Metal Treating, Inc.*, 307 F. Supp. 1251 (E.D. Mich. 1969), *aff'd*, 440 F.2d 77 (6th Cir. 1971), may be consistent with the conclusion respondent would have this Court reach, the facts are materially different from those of the case at bar.

The Kolene patent covered a process for treating metals in a salt bath. Kolene obtained the trademark TUFFRIDE for the process and licensed various "heat treaters" to use the TUFFRIDE trademark *if they also purchased from Kolene the salts employed in the process.* The purchasers were *not compelled* to buy salts from Kolene, but those who chose not to were not permitted to use the trademark. The District Court held that under the circumstances the licenses were *trademark licenses*, not patent licenses; therefore, the requirement that the licensees purchase the unpatented salts from Kolene was not patent misuse, but was necessary for Kolene to control the quality of the licensed process. 307 F. Supp. at 120. The Court of Appeals for the Sixth Circuit agreed.

Here, unlike in *Kolene*, the licensees had no choice. A trademark license was not available under any circumstance. The penalty for using the trademarks in any form

or even from just challenging their validity was the cancellation of the patent license.

***Switzer Brothers, Inc. v. Locklin***

*Switzer Brothers, Inc.* v. *Locklin*, 297 F.2d 39 (7th Cir. 1961), *cert. denied*, 369 U.S. 851 (1962), including the passage quoted by respondent, supports petitioners. In *Switzer Brothers*, patent licenses were granted only on the condition that the licensee agree to utilize the patentee's trademark in connection with any products manufactured or sold under the license. The court ruled that the patent had been misused because, just as here, *patent* licenses "were conditioned" on the acceptance of the *trademark* provisions. Moreover, in *Switzer Brothers*, the overall result of the patent licenses "vested the trademark with an artificial value." *Id.* at 48. Here, the leverage of the patent monopoly was used to vest respondent's trademarks with not only an artificial, but also an enhanced value, in that licensees were prohibited from challenging the marks or from using them in various ways permitted by the pertinent trademark laws. Here, as in *Switzer Brothers*, the illegal concessions were exacted from the licensees "by fear." *Id.* at 48.

In discussing *Switzer Brothers*, respondent concludes that the patent had been misused because the patentee "through licensing of its patent, [obtained] a trademark position in the marketplace *beyond that provided* by the trademark law . . . ." (R. 5) (emphasis in original). This, however, is the direct result of respondent's own licensing practices which permitted it "to obtain an enlargement of [its] trademark rights," well beyond those provided by the trademark law. *See* Petition at 12-13.

***Jack Winter, Inc. v. Koratron Co.***

The court in *Jack Winter, Inc.* v. *Koratron Co.*, 375 F. Supp. 1 (N.D. Cal. 1974), held that it was misuse to license patents only on the condition that the licensee use the patentee's trademark. Here, respondent, like the patentee in *Jack Winter*, improperly used the leverage of the patent monopoly to obtain rights regarding its trademarks which are otherwise totally unavailable through the legitimate protection afforded by either the patent or trademark laws.[4]

## Coercion, Although Present, Is Not A Prerequisite For Patent Misuse

Respondent places perhaps the greatest weight on its contention that to find misuse "it must first be shown that the patent was *used* in a *coercive* manner" (R. 6) (emphasis

4. In finding patent misuse, the court in *Jack Winter*, relying on the Supreme Court precedents cited in the Petition, stated (375 F. Supp. at 71):

> Although an antitrust violation involving a patent comes clearly within the patent misuse doctrine, *a showing of such a violation and actual lessening of competition is not required.* (emphasis added).

This is directly contrary to the Federal Circuit's holding that unless a *per se* violation of the antitrust laws exists, misuse must be premised upon "a factual determination [revealing] that the overall effect of the license *tends to restrain competition* in an appropriately defined relevant market." (A. 14a) (emphasis added). Moreover, relying on *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 (1942), the Court of Appeals for the Ninth Circuit in *Berlenbach* v. *Anderson and Thompson Ski Co.*, 329 F.2d 782, 784 (9th Cir.), *cert. denied*, 379 U.S. 830 (1964), ruled:

> In view of the history and policy of the defense of patent misuse we find no merit in appellant's contention *that the proof of substantial lessening of competition is a prerequisite to finding patent misuse.* (emphasis added).

*Accord, Koratron Co.* v. *Lion Uniform, Inc.*, 409 F. Supp. 1019, 1024-25 (N.D. Cal. 1976).

added). Significantly, it has failed to cite even a single case in support of this proposition. The truth is that the law is to the contrary.

In *F.C. Russell Co.* v. *Consumers Insulation Co.*, 226 F.2d 373 (3d Cir. 1955), defendant had successfully asserted below that plaintiff had misused its patent. On appeal, plaintiff contended that "the real test" of misuse was whether it had "enforced or attempted to enforce" the offending provisions in its agreements. *Id.* at 376. In ruling that actual coercion was not a prerequisite for patent misuse, the Court of Appeals held (*Id.*):

> But, aside from the foregoing, the Supreme Court has held that whether an illegal provision of a contract is or is not enforced makes no difference if the contract gives the patentee, as here, the power to effect enforcement. See, for example, United Shoe Machinery Corp. v. United States, 1922, 258 U.S. 451, 458, 42 S.Ct. 363, 66 L.Ed. 708, and similar decisions. Certainly, if the law is to be changed in this respect, it should be altered by the Supreme Court and not by this tribunal.

*Accord, Krampe* v. *Ideal Industries, Inc.*, 347 F. Supp. 1384, 1387 (N.D. Ill. 1972).

"Coincidence" is not an acceptable explanation as to how eleven licenses granted by respondent all happen to contain the restrictive provisions of which petitioners complain; the patent licenses were simply not available absent consent to the trademark restrictions. In fact, in its dealings with Mistral Windsurfing AG, now a U.S. licensee, respondent refused to grant the patent license unless Mistral first agreed (1) to eliminate the term "Windsurfing"

from its corporate name and cease using the term "Windsurfer" in marketing materials, and (2) to withdraw the six proceedings challenging respondent's trademarks it had brought in the United States Patent and Trademark Office and which were then *sub judice*.[5] Moreover, on February 26, 1986, the Court of Justice of the European Communities in *Windsurfing International, Inc.* v. *Commission of the European Communities*, case 193/83, affirmed the decision of the E.E.C. Commission below that *seven* of respondent's patent licensing practices violated Article 85 of the E.E.C. Treaty as being illegal restrictions upon competition. Fifth on the list of anticompetitive practices was the obligation of the patent licensees to acknowledge as valid the trademarks "WINDSURFER" and WINDSURFING" as well as respondent's logo.

## Conclusion

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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5. *See* Declaration filed on behalf of Mistral in *Mistral Windsurfing AG* v. *Windsurfing International, Inc.*, 85 Civ. 3880 (MEL) (S.D.N.Y.).

## Certificate of Service

This Reply Brief Of Petitioners has been served upon Respondent by mailing copies thereof to Harold E. Wurst, Esq., Nilsson, Robbins, Dalgarn, Berliner, Carson & Wurst, 707 Wilshire Boulevard, Suite 4750, Los Angeles, California 90017 and David R. Francescani, Esq., Darby & Darby, 405 Lexington Avenue, New York, New York 10174, this 6th day of June, 1986.

Thomas F. Reddy, Jr.